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SUBJECT: Growth Trends in Brazilian Telecommunications

SENSITIVE BUT UNCLASSIFIED

¶1. (SBU) Summary: Brazilian Ministry of Communications (MOC) staff noted in a recent meeting that information technology use has increased by 40% over 2006 in the mobile service sector, by 35% in the internet service sector and by 30% in the pay TV service sector. The MOC also confirmed the rumor of the pending merger between Brazilian mobile services companies Oi and Brasil Telecom, which will create the second largest mobile service company in Brazil. Jefferson Nacif, a primary MOC contact, will be transferring to ANATEL, the Brazilian telecommunications regulatory body, in mid-October. He cited an increased emphasis on regulatory oversight, given the industry's growth, as the main reason his expertise is needed at ANATEL. End Summary.

MOBILE PHONE USAGE GROWING

¶2. (SBU) In a meeting with Econoff, MOC's International Affairs officer Jefferson Nacif highlighted the mobile sector's growth, stating that Brazil currently has 138 million cellular phone users compared to 99 million in 2006. The MOC attributes this growth to the presumption that many Brazilians are using more than one cell phone, often separating them between professional and personal use. Nacif commented that monthly service packages are still much cheaper than pre-paid phone cards on a cost per minute basis given that many mobile service companies are using the user access fee (VUM), which is generated on each call, to subsidize the packages in hopes of enticing customers into long term contracts. Nacif cautioned that this practice unduly favors those who can afford these packages, while marginalizing those consumers who can only invest limited resources in the phone cards.

MAJOR TELECOM MERGER IN THE WORKS

¶3. (SBU) The merger between Oi and Brasil Telecom was announced last month with approval by ANATEL expected in December 2008. This new company, whose name is yet to be announced, will directly challenge major mobile phone service provider TIM in terms of geographic coverage, with the only omission in their coverage being the state of Sao Paulo. Nacif predicted that by 2016, Brazil will have complete geographic mobile service coverage.

INCREASES IN INTERNET USAGE

¶4. (SBU) Nacif commented that internet use in Brazil, through fixed and mobile connections, will be the largest IT growth sector in the years ahead. Currently Brazil has about 30 million internet users (out of a total population of 189 million) and Nacif stated that the GOB's goal is to have 90 million by 2010. To achieve this goal, Nacif stressed the importance of continued fixed line infrastructure expansion, especially to rural areas. However, he noted that, given the infrastructure challenges expanding fixed line access in

extremely remote areas presents, mobile internet access would be the largest growth component of this sector. He also pointed to the steady decline in the prices of computers and mobile internet devices as another factor that will contribute towards achieving this growth target. (Note: Apple Brazil introduced the iPhone 3G on September 26. End note). Nacif referenced an uptick in consumer preferences for premium access in Brazil, citing the 10 million broadband access users who are willing to pay for these premium services.

MORE WEALTH MEANS MORE UPSCALE CABLE TV

15. (SBU) Nacif cited pay TV service growth as an indicator of increased consumer purchasing power in Brazil. Both cable and satellite TV service companies have shown impressive growth over the past decade. Nacif noted that cable TV appeals to an audience looking for multiple service packages through one service provider. The convenience of having telephone, internet and pay TV managed by one company has attracted more than 5 million users in the last 5 years. Nacif commented that Satellite TV appeals to a consumer that wants more international channel options, but noted that this service tends to be more expensive than cable TV. Nacif mentioned that this segment of pay TV has more growth limitations due to its higher cost, the scarcity of dish supplies and dish placement restrictions in certain types of residences.

16. (SBU) Comment: Sustainable economic growth in Brazil will greatly depend on its ability to broaden economic benefits to Brazilians on the margins, and this connection, according to Nacif, begins with information technology. Post believes these growth trends in the Brazilian IT sector present excellent opportunities for U.S. business participation, especially in the area of mobile

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connectivity. Post believes Nacif's transfer to the ANATEL, where he will retain the portfolio of international issues he followed at MoC, will be helpful in encouraging ANATEL to maintain a forward-looking, open approach to developments in the IT sector. END COMMENT.

SOBEL